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VICE CHM. BD. OF DIR.

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VICE PRESIDENT

R. E. LASATER
VICE PRESIDENT

C. W. HARRIS
VICE PRESIDENT

BOWMAN GRAY
CHAIRMAN BOARD OF DIRECTORS

DIRECTORS

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CHAIRMAN EXECUTIVE COMMITTEE

M. E. MOTSINGER
SECRETARY

J. W. GLENN
MGR. TURKISH LEAF DEPT.

R. C. HABERKERN
PURCHASING AGENT

L. F. OWEN
TRAFFIC MANAGER

R. D. SHORE
TREASURER

R. J. Reynolds Tobacco Company.

WINSTON-SALEM, N. C.

January 10, 1935.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

There is submitted herewith the Financial Statement of your Company at December 31, 1934.

Net Earnings for the year 1934 amounted to $21,536,894.08, or $2.15 per share, compared with $21,153,721.50, or $2.11 per share for 1933.

The current position of the Company continues strong and liquid, with no bank debt, outstanding bonds or preferred stock. As will be noted from the Financial Statement, current assets at the close of the year aggregated $133,581,616.64, including cash and Government securities of $34,161,950.23, and current liabilities totalled $7,735,549.31, thus resulting in net current assets of $125,846,067.33.

Cash dividends of $3.00 per share were paid in 1934, as during each of the four preceding years. The Directors have deemed it proper to continue dividends at this same rate in view of the amount in the Undivided Profits Account when considered in relation to the Company's position in the matter of cash and Government security holdings.

Inventories of Leaf Tobacco, Supplies and Manufactured Product are carried, as usual, at cost. Leaf tobacco, the principal item in the inventories, is advantageously owned, the average value as carried on the books being well below prices prevailing on leaf tobacco markets this season. The inventories consist of the high quality and costlier grades necessary to meet the exacting requirements for the Company's products. As in former years, the nominal sum of $1.00 is assigned to the Company's well-known and valuable Brands, Trade-Marks and Good Will.

Included in the item of Interest and Dividends on Investments in the report of earnings is a sum representing interest return on the Company's investment in the Retirement and Insurance Investment Fund. This Fund, as previously explained to stockholders, consists of shares of Common Stock of the Company, as noted on the Financial Statement, set aside for effecting the continuance of and the financing of the Company's plan of insurance protection and old age pensions for faithful employees. Included in the item of Reserves are the dividends on these shares and the annual provision set up, as specified in the Plan, after deducting the aforementioned item of interest and the cost of defraying the expense of the Plan during the year 1934.

As business concerns generally were subjected to increased taxation in 1934, it may be pointed out that in arriving at earnings for the year, the Company's deductions for certain taxes for 1934 exceeded such deductions for 1933 by $7,133,039, most of this increase being due to the A. A. A. processing taxes. The deductions for taxes in both years are, of course, in addition to amounts expended for the Federal stamp taxes on tobacco products, which taxes remain at the peak rates for all time.

The number of stockholders of the Company has continued to increase steadily throughout the year, the total number now being in excess of 47,000.

A folder is enclosed illustrating some of the leading brands of tobacco products manufactured by the Company in the various branches of its diversified business.

Respectfully yours,

Jas. A. Gray,

President.